

Table of Contents

EXECUTIVE SUMMARY:

The Commission Should Take The Steps Necessary To Allow Competition To Develop.....	2
A. The Commission Should Address Rate Design And Policy Issues Now Rather Than Waiting For The Audit Process To Conclude	4
B. The Commission Should Take The Steps Necessary To Promote Competition And Prepare For The 2005 Rate Case.....	5
C. The Commission Should Revise The Proposed Interim Order To Properly Analyze The Evidence In The Record	11
I. Legal Issues And Standards For Decision	13
A. Substantive Standards And Policies Governing Requested Rates.....	14
B. Procedural Issues (E.G., Admissibility) Not Addressed In Specific Arguments.....	22
C. Other Policy Issues.....	22
1. Impact On Customers	22
2. Impact On Cost Based Rates.....	24
3. Impact On The Development Of An Effectively Competitive And Efficient Electricity Market.....	25
4. Impact On Future Rate Cases.....	27
5. Impact On Capital Markets and Cost of Capital	29
6. Impact On Distribution Adequacy And Reliability	29
II. Revenue Requirement Issues	31
A. Calculation of Revenue Requirement	33
B. Selection of Test Year	36
C. Rate Base	37
1. Functionalization of Distribution Plant.....	37
2. General and Intangible Plant – Direct Assignment and Allocation.....	38
3. Known & Measurable Changes to Test Year Plant Balances	41
4. Other Adjustments to Rate Base	41
a. Budget Payment Plan	41
5. Plant Adjustments.....	41
a. Plant Expenditures for Q2 2001	41
b. Proposed Retired Plant.....	41
c. Retirements Related to 2001 Replacement Plant	41
d. Accumulated Depreciation Adjustment Related to Overtime and Alleged Premiums Paid.....	41

	e.	Deferred Taxes Related to Overtime and Alleged Premiums Paid	41
6.		Prudence Of Distribution Capital Investment Costs	41
	a.	Affect of Alleged Imprudence on Rates.....	42
	b.	Prudence of Specific Distribution Capital Investments in Rate Base	42
	c.	Request For Audit Of New Distribution Capital Investment Costs.....	43
7.		Other Rate Base Issues	43
D.		Operating Revenues and Expenses	
	1.	Recommended Operating Income Statement.....	43
	2.	Operating Revenues.....	43
	3.	Operating Expenses	43
	a.	Functionalization Of Generation, Transmission, And Distribution Expenses.....	43
	b.	A&G Expenses—Direct Assignment And Allocation	44
	c.	Proposed Known & Measurable Changes to Test Year Expenses.....	46
	i.	Expense Adjustments Related to Rate Base Adjustments	46
	ii.	“Levelization” Adjustments.....	46
		A. Tree Management Expense	46
		B. Storm Restoration Costs.....	46
		C. Reserve for Levelized Variable Storm Damage Expenses	46
		D. Other—FERC Accounts 508, 590, 592-94, and 903.....	46
	iii.	Salary and Wage Adjustment for General Pay Increases	46
	iv.	Adjustments For Post-Test Year “Merger Savings”	46
	d.	Other Proposed Adjustments to Expenses.....	46
	i.	Exclusion fo Incremental Expenses Related to Unicom/PECO Merger	46
	ii.	Exclusion fo Audit-Related Costs	46
	iii.	Environmental Remediation Expenses	46
	iv.	Advertising Costs	48
	v.	Bank Commitment Fees.....	48
	vi.	Legal Expenses.....	48
	vii.	Charitable Contributions & Memberships	49
	viii.	Special Projects	49
	ix.	Research and Development Costs	51
	x.	Interest On Customer Deposits	51
	xi.	Uncollectible Expense	51

	xii.	Taxes Other Than Income Taxes.....	51
	xiii.	Incentive Compensation	52
	xiv.	Rate Case Expense	52
	4.	Prudence of Expenses	52
	5.	Other Revenue & Expense Issue	52
E.		Cost of Capital	52
	1.	Capital Structure.....	53
	a.	Known and Measurable Changes to Test Year Capital Structure.....	53
	i.	TFI Retirements in 2001 and 2002.....	53
	ii.	Other	53
	b.	Purchase Accounting Adjustments	53
	c.	Note Receivable from Exelon.....	53
	2.	Cost of Debt	53
	a.	Purchase Accounting Adjustments	53
	b.	Cost of Variable Rate Long-Term Debt	53
	3.	Cost of Common Equity	53
	a.	Comparable Groups	53
	b.	Methodological Issues	53
	c.	Market Versus Book Issues	53
	4.	Overall Rate of Return.....	53
F.		Cost of Service and Rate Design	54
	1.	Cost of Service Study Issues	54
	a.	Marginal Cost Study	54
	b.	Embedded Cost Study.....	54
	2.	Interclass Revenue Allocation.....	54
G.		Rate Design.....	54
	1.	RCDS Rate Design	54
	a.	Demand Ratchet.....	54
	i.	General Service Ratchet.....	55
	ii.	Special Ratchet for Standby Customers	57
	b.	Definition Of Billing Demand In Rate RCDS	57
	c.	Impact On CTCs	58
	d.	Generation Facilities Under Rate RCDS.....	61
	i.	Proposals for Production Credit	61
	ii.	Proposals for Production Adder	61
	2.	Rate HVDS.....	61
	a.	Eligibility	63
	b.	Calculation of Credit	63
	c.	Allocation Of Costs To Other Classes	64
	d.	Exemption From Rate RCDS Facility Charges	65
	e.	Adoption Prior To Bundled Rate Tariff Change	65
	3.	Rider ISS	66
	a.	Pricing	66
	b.	Commission Authority To Alter Edison's Proposal	68

4.	Other Customer Class Definition Issues	69
5.	Residential Customer Eligibility for Rider PPO	69
6.	SBO Credit	69
7.	Metering Service Charge Credit	69
8.	Rider TS – Transmission Service	69
9.	20 Month Return to Bundled Service Requiriemnts.....	69
10.	Rider 25.....	69
11.	Other Topics.....	71
III.	Terms and Conditions Issues	71
A.	SBO Credit Eligibility (Customers With Past Due Bundled Service Balances)	71
B.	Enrollment Issues	72
C.	Release and Use of Customer Specific Information.....	72
D.	Off-Cycle or Non-Standard Switching for Residential Customers.....	73
E.	General Account Agency Issues.....	73
F.	Value-Added Aggregation Services	73
G.	Collection of FERC Charges Under DSTs	73
IV.	Other Issues The Commission Should Disregard Edison’s “Lost Revenue” Analysis a/k/a “The Thing”	74
V.	Conclusion.....	75